RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Aug. 16 DJIA 5689.45; PTI 4578; A-D Ratio +0.08
Aug. 23 DJIA 5722.74; PTI 4584; A-D Ratio +0.22
Dow Yield: 2.21%; Dow Price/Earnings: 17.7
Dow 200-day MA: 5451; Dow 30-day MA: 5570
Dow Times Book Value: 4.27; PTI 89-day MA: 4543
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 393.60; Gold-PTI: 486

Aug. 28, 1996 **LETTER 1207**

THE PICTURE: Say hello to "no man's land," because that's exactly where the stock market is. The experts explain, the gurus predict, the soothsayers sooth -- but the answer, the ultimate answer, lies in the action of the Averages.

As subscribers know, I have been of the opinion (and it's only my *opinion*) that this market is in the process of forming a (damn slow) major top. At this point my subscribers and I enjoy one advantage. The advantage is that we can monitor critical topside and bottomside levels for the Dow and the Transports.

However, I have a secret suspicion, and it's this -- I don't think this market's going anywhere for a while. Lately, it's been exhibiting all the characteristics of simply wanting to "bounce around" in a TRADING RANGE.

But in case we do get some action, I outlined the critical levels in the last Letter, and now I want to repeat them. On the upside we have the bull market highs (recorded in May) of **5778.00** for the D-J Industrials and **2296.20** for the Transports. If the two (and I mean BOTH) Averages can rally above those levels, the bull market will be reconfirmed and the market will, in all probability, work higher.

On the downside we have the secondary lows (recorded in July) of **5346.55** for the Industrials and **1965.73** for the Transports. If the two Averages turn down and violate those lows, then under Dow Theory a bear market would be signaled.

So from here on it's up to the Averages to tell us whether the primary trend of the market is bullish or bearish. Two sets of figures -- two highs and two lows -- they're probably the most important two sets of figures in the civilized world today.

In a situation such as the present one, I have learned from past experience that we often have to experience a "failure" before the situation is resolved. I think the downside has been pretty well tested. If we are fated to receive a failure, my guess is that it will be a solo new Dow high with Transports failing to confirm.

Of course, we do have other indicators to watch, not the least of which is my **Primary Trend Index** or **PTI.** John McGinley of "Technical Trends" out of Wilton, CT, in his latest report, writes that "(Russell's) PTI has been the single best indicator of this long move." Thank you, John.

The PTI moved generally sideways from May to mid-August. During the severe May-to-July market weakness, the PTI, in its mysterious, almost uncanny way, refused to break down, refused to give a bear signal (its resistance to the downside certainly surprised me). Following its July 24 low, the PTI turned up. And a second surprise -- on August 16, the PTI recorded a **new high of 4578.** The PTI is telling us that this market is still in the grip of the bulls (or, if you wish, that the bear forces have not yet been able to take command).

On the same page 2 chart we see the **advance-decline ratio** for the NYSE. The A-D ratio is a good proxy for ALL the stocks on the Big Board. The decline in the A-D ratio from its May 22 high to its July low tells us that there have been a lot of losses in a lot of stocks. The rally back from the July 22 low has not been particularly impressive. **Conclusion:** The PTI is still in its bullish mode, while the A-D ratio is presenting a rather weak profile.

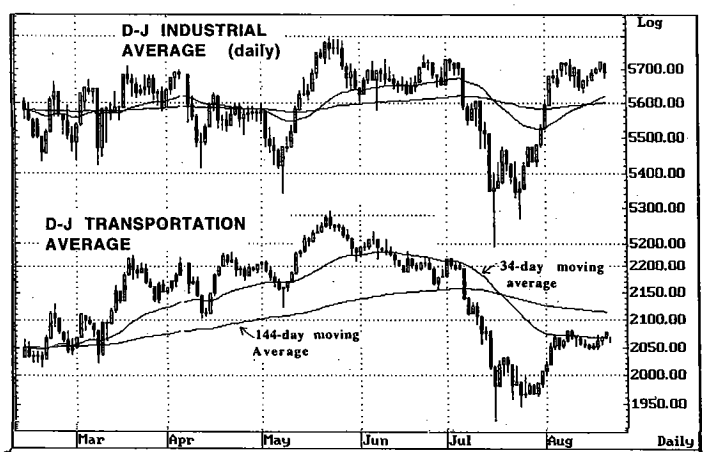
As an added item of interest, the A-D ratio for the Nasdaq has now fallen below its 1990 low! Many Nasdaq stocks were market leaders on the upside and many have recently been leaders on the downside.

BACKGROUND: Every bull market begins with seasoned investors moving in and buying "great values." What constitutes a great value? In my opinion, a great value is a battered blue-blue-chip stock that is yielding 6% or better. As the bull market progresses, the concepts, the ideas, the hype and the optimism increase. At some point the public pours in amid a rising crescendo of hope and a new era good-feeling.

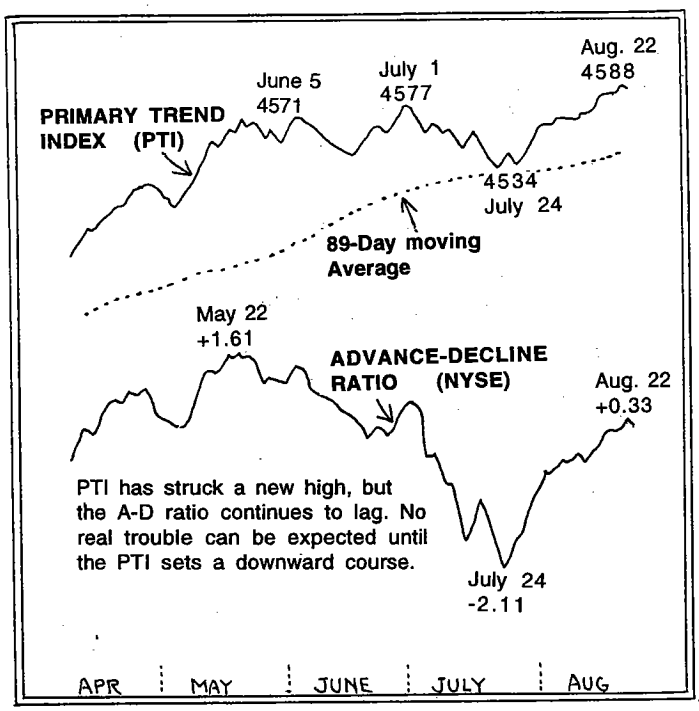
Each bull market in history possesses its own story, and, of course, each of these stories grows in importance during the third or final speculative phase of the bull market.

Along those lines, I want to review a bit of stock market history. The building of canals provided the impetus for the sporadic bull markets of the early 1800s. During the mid-1800s the rise of the Eastern railroad empires fired the imagination of Wall Street. Later during the 1860s and '70s it was the building of the great transcontinental railroads and the opening of the West that provided the ammunition for the bulls. In the 1890s and early 1900s it was the rise of the monopolies and the great corporate empires that generated wild optimism on the part of investors.

In the 1920s it was the exciting new industries -- radio, movies, autos, electronics -- all of which went into making the 1921-29 bull market one of the greatest in history. In the 1950s America was recovering from World War II, and a goods-starved populace



No change in the story -- the Dow continues to be "the strength of the market," while the Transportation Average continues to lag badly. The Transports are below both their 144-day MA which stands at 2110 and below even their shorter-term 34-day MA which stands at 2067. A new Dow high (without Transport confirmation) would be highly dangerous.



stocked up with homes and cars and appliances, all the while glorying in the fact that the US was the undisputed most powerful nation in the world.

In the 1960s the rise of the great conglomerates plus the advent of television sufficed to fire the imagination of investors. In the 1980s corporate restructuring provided the impetus for higher markets.

What about the 1990s? In my opinion, it was the rise of the computer society plus massive public participation in the stock market via the mutual funds which sent the Dow from 2,000 on January 8, 1987 to 3,000 on April 17, 1991 to 4,000 on February 23, 1995 to 5,000 on November 21, 1995. For sheer upside Dow momentum, nobody had ever seen anything like it.

Smith Barney, in their August 9 report, has published a most interesting set of statistics. Their tabulations show the theoretical price of the 30 Dow Industrial stocks **(a)** if the Dow was to rally 1,000 points from here, as one "name" analyst has predicted, and **(b)** at various price levels if or when a bear market takes over.

For purposes of this study, Smith Barney used the prices of the 30 Dow stocks as of July 31. The **first column** shows the July 31 price of each of the thirty stocks. The **second column** shows where these stocks might be if the Dow was to *rally* 1,000 points or 18% from here. The **third column** shows where the 30 components would be if the Dow was to drop 1,000 points or 18% from here.

What if the Dow was to retreat to its "normal" historical price/earnings multiple of around **15 times earnings?** In that case the Dow would lose about 2,050 points or about 37% -- and that's what we see in the **fourth column.**

And what if the Dow was to decline to its "normal" historical **average yield which is 4.3%?** That would entail a loss of about 48% and would cut the Dow approximately in half. If that was to happen, the prices of the 30 Dow stocks are shown in the **fifth column.**

The last two columns show what would happen if a super-bear market was to hit. What if the Dow was to lose 64%, which would place it close to the historical bear market-low yield of **6%?** A 64% decline would take the Dow down to around 2,000, and these prices are illustrated in **column 6.** OK, how about a Bob Prechter-type total disaster, a bear market in which the Dow ends in shambles, down around 1,000? This would represent a Dow drop of around 82%, and we see the horrendous result on prices in **column 7.**

All these statistics are, of course, theoretical, but, I thought, rather fascinating. Could any of the above actually occur? Well yes, you see, over one hundred years of Wall Street history tells us that -- uh, bear markets do occasionally happen.

A thought -- by historical standards this bull market has been flagrantly **overvalued** for roughly four years. That fact suggests to me that when the bear takes over we could see a final, extended period featuring the most drastically undervalued prices in memory.

INVESTMENT POSITION: I'm keeping the question mark in the box until either the bull market is reconfirmed or a bear signal is rendered. The Dow has rallied to within a few percentage points of its all-time high. But if you study the charts of hundreds of individual stocks, you'd think the Dow had only rallied 100 points or so. The fact is that a lot of damage has been done to a lot of individual stocks, but you'd never know it by studying the profile of the Dow (continued on page 3).

DJIA Component Stocks

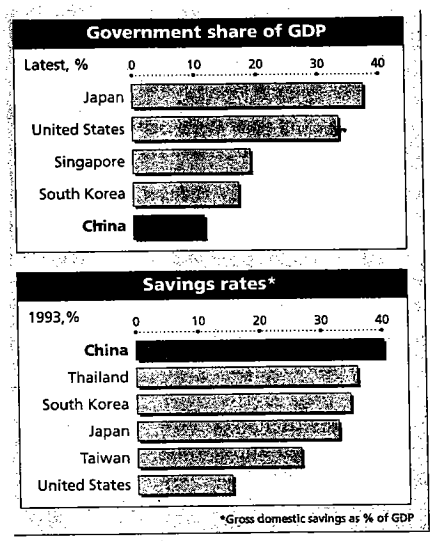
7/31/96	1	2	3	4	5	6	7
COMPONENT	CURRENT PRICE	+1000 POINTS +18%	-1000 POINTS -18%	-2050 POINTS -37%	-2640 POINTS -48%	-3500 POINTS -64%	-4500 POINTS -82%
AT&T (T)	53	63	43	33	28	19	10
ALLIED SIGNAL (ALD)	58	68	48	37	30	21	10
ALUMINIUM CO. OF AMER. (AA)	57	67	47	36	30	21	10
AMERICAN EXPRESS (AXP)	44	52	36	28	23	16	8
BETHLEHEM STEEL (BS)	10	12	8	6	5	4	2
BOEING CORP. (BA)	88	104	72	54	46	32	16
CATERPILLAR (CAT)	65	77	53	41	34	23	12
CHEVRON (CHV)	58	68	48	37	30	22	10
COCA COLA (KO)	47	55	39	30	24	17	8
DISNEY (DIS)	56	66	46	35	29	20	10
DU PONT (DD)	80	94	66	49	42	29	14
EASTMAN KODAK (EK)	74	87	61	47	38	27	13
EXXON (XON)	82	97	67	52	43	30	15
GENERAL ELECTRIC (GE)	80	94	66	50	42	30	14
GENERAL MOTORS (GM)	49	58	40	31	25	18	9
GOODYEAR (GT)	44	52	36	28	23	16	8
INT'L. BUSINESS MACHINES (IBM)	108	127	89	66	56	40	20
INT'L. PAPER (IP)	38	45	31	24	20	14	7
MCDONALDS (MCD)	46	54	38	29	24	17	8
MERCK (MRK)	64	76	52	40	33	24	12
MINN. MINING & MANUF. (MMM)	65	77	53	41	34	23	12
MORGAN JP (JPM)	86	102	71	54	45	31	15
PHILIP MORRIS (MO)	103	122	83	64	54	38	20
PROCTER & GAMBLE (PG)	89	106	73	56	46	33	16
SEARS (S)	42	50	33	26	22	15	8
TEXACO (TX)	85	101	70	55	44	31	15
UNION CARBIDE (UK)	42	50	34	26	22	15	8
UNITED TECHNOLOGIES (UTX)	111	132	90	69	58	41	21
WESTINGHOUSE (WX)	17	20	14	11	9	6	3
WOOLWORTH (Z)	20	24	17	13	10	7	4
TOTALS.....	5499	6499	4500	3449	2860	2001	999
ROUNDED LEVEL	5500	6500	4500	3450	2860	2000	1000

As this is written, I still can't determine with authority whether the primary trend of the stock market is bullish or bearish (and neither can anyone else, for that matter). But I continue to feel that this is a time to be extremely cautious.

When a mutual fund manager turns cautious, he may increase his cash position from say 6% to 10%. Obviously, that's not my idea of caution. My idea of caution is maybe 50% in stocks and 50% in cash. My idea of extreme caution is zero to say 10% in stocks and 90% to 100% in cash. In case you're a new subscriber, my belief is that extreme caution is now warranted. This means 90% to 100% in cash or T-bills or T-notes or something almost as safe.

"Russell, if you had to own a few stocks, what would you own?" Answer: the same ones I mentioned many months ago, my favorites -- American International Group, JP Morgan, NationsBank, Royal Dutch, Exxon. Too late to buy 'em, but I'd hold them until a PTI sell signal.

NOTES & QUOTES: I was particularly interested in last week's news in which we learned that China, for the first time, *outpaced Japan* in producing the largest portion of the US trade deficit. The US imported $3.3 billion more on goods and services from China than it exported. For the past few years all our "experts" were waxing poetic over what a huge demand market 1.2 billion Chinese represented, I warned, however, that China would also represent a giant supply market. Now it's happening. The Chinese, with their business know-how, their intense work ethic and their low wages, are becoming a tremendous source of SUPPLY to the world. And I wonder -- what happens when China starts producing $6,000 cars or $90 TV sets?



This may be the scariest long-term chart around, that is, if you worry at all about international competition. The chart shows that the Chinese government's share of the Chinese Gross Domestic Product is a mere 11.6%. On the other hand, the intrusive US government eats up a full one-third of our own GDP. How about savings? The Chinese save a huge 40% as a percentage of their GDP while the US is around 13%. In other words, capitalism is having a picnic in China compared with its counterpart in the US. At a local Chinese restaurant where I often eat, the owner told me that many of his friends are going back to China "where they can make more money." (Chart from the London *Economist.*)

A final thought: Chinese living off-shore are sending billions of dollars of investment money to mainland China. Obviously, no one knows more about what's going on in China than the off-shore Chinese, almost all of whom have close contacts or family in China. Money goes where it's more profitable to go.

* *

Don't ask me why -- but every year or so, I get a "presentiment." This time my presentiment is that something BIG, something SHOCKING is coming up which will drastically affect the November election. There, you heard it here first.

* *

Here's an interesting question that has just been posed by Nelson Warfield (a Dole spokesman), "Why won't the President of the United States provide the American people with a full accounting of his medical history and records?" **Russell comment**: Gosh, I wonder what in the world Clinton might want to hide? (Note: Bush, Reagan and Dole all disclosed their complete medical records.)

THE REPUBLICANS

Dole Camp Seeks Disclosure by Clinton of Medical Records

By TIM WEINER

WASHINGTON, Aug. 21 — The Bob Dole campaign said today that President Clinton should make all of his medical records public, as Mr. [illegible] his medical records.

"Why won't the President of the United States provide the American people with a full accounting of his medical history and records?" Mr. [illegible]

But Mr. Clinton's relative reticence on the subject, along with the challenge raised by the Dole campaign, prompted questions and requests for the President's medical files at today's White House briefing.

Mr. Dole has done.

Mr. McCurry responded that he had offered Dr. Altman an interview with Dr. Connie Mariano, the White House physician, and "he didn't take us up on the offer."

* *

The government tells us that inflation is rising at only a 0.3% rate. What planet are these guys living on? Housing prices are up 7% from a year ago. With grains having boomed, food prices are moving up. Car prices are tacking on boosts of 2% to 7%. Rents are definitely higher, particularly at both coasts. And those "little things" like movie tickets, dry cleaning, plumbing, electrical and home repairs, shoe repairs, beauty parlors, on and on -- they're all costing more. And oh yes, what about taxes -- federal, state, county, city, property, sales? *Forbes* (Aug. 26) shows that the *inflation adjusted income* for a high-income family of four after federal, state and local income taxes averaged $75,995 in 1971. In 1995-96 that family's income had DROPPED to $71,228. Writes *Forbes,* "Three decades of rising taxes have absorbed any increases in average real income." In his latest report Sindlinger writes that by their calculations the year-to-year increase in the cost-of-living measure is **6.58%.** That sounds about right to me.

* *

The Cato Institute (1000 Mass. Ave. NW, Wash. DC) publishes a great document entitled, "A Fiscal Policy Report on America's Governors: 1996." Each state's governor is graded from A to F. A few excerpts: "The years 1990 and '91 saw the largest state tax increases. Moreover, rates of income tax, the most destructive form of state taxes, were raised substantially in many states. Wilson in California, Sundlum in Rhode Island, Casey in Pennsylvania, Voinovich in Ohio, all enacted progressive 'soak the rich' income tax increases. Those states also suffered substantial losses of jobs, income, and investment capital relative to the rest of the nation following those tax hikes. In 1995 the trend was dramatically reversed. Twenty-nine governors recommended tax cuts last year, and 21 states enacted them. This was the largest tax-cutting year for states in a decade." Overall a fiscal policy rating of "A" was given to Pataki of NY -- "No other state has improved its fiscal condition over the last two years more than NY, but then no other state had such a giant hole to climb out of." A "B" rating was given to PA, NJ, CT, SD, NM, TX, SC. Rating a low "D" were MD, HI, RI. Of the last, Cato wrote, "Outside of Wash. DC, Rhode Island has arguably the most hostile business environment in the nation." What about **California?** Cato writes, "Wilson's second term in office could hardly be worse than his first. Wilson's first year was a catastrophe. He muscled through the legislature, with the willing support of the Democrats and moderate Republicans, a $7 billion tax increase, the largest in the history of the 50 states. That sent an already ailing economy into intensive care . . . His second term has been better by far." **Texas**: "Ten years ago Texas was drowning in an oil recession; today it is growing by some measures faster than any other state, thanks to exports under NAFTA and the absence of a personal income tax." **Utah** "was recently ranked the best managed state in the nation." **Ohio:** grade "F" -- "At a time when most GOP governors are cutting taxes, Voinovich almost flaunts his contempt for supply-side tax policy. In '93 he passed a gigantic billion-dollar tax hike." **Nevada:** Grade "B" -- "Over the past eight years the Nevada economy has absolutely exploded. Many of the new Nevadans are Californians fleeing high taxes, stifling regulations and congestion." **New Hampshire:** "Merrill is the perfect fit as governor of the nation's most 'tax-phobic' state." **Delaware:** "F" -- "A former five-term member of the US Congress, Carper is one of the last of the truly big-spending governors." **Connecticut:** "B" -- "For the taxpayers of CT, almost anyone would be an improvement over Lowell Weiker, and Rowland unquestionably is that."

So the question, "Are you better off now than you were 10 years ago?" I doubt it. I've said it all along -- the one thing almost everyone in the nation agrees on is that taxes are too high and

government has grown into one huge, intrusive, expensive monster. If I were writing the Republican program, that's what I'd harp on. That plus the fact that Bill Clinton (despite his endless blather) has only made the situation worse.

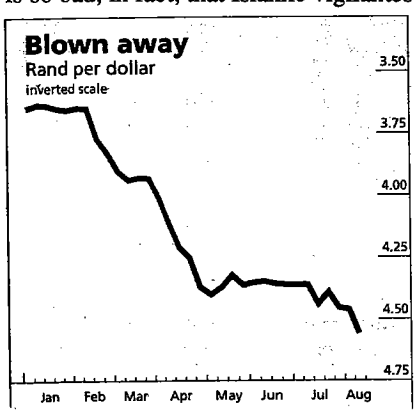
* *

Wise words from Steve Forbes: "One thing I learned on the campaign is that voters are uneasy about our future. They're looking for a substantive debate on how we can do better, on how we can fulfill our true potential as a people and a nation. In their hearts, they realize that Bill Clinton has no compass, no core. He is reactive." **Russell comment:** I think this is absolutely true about Clinton. He's basically an interminable campaigner. In his life all he's ever done is campaign. Originally, Clinton stood for big government, but even Clinton sees that the winds of history are blowing against big government. So Clinton is left with simply carping at the Republicans. Dole should emphasize Clinton's "emptiness," his total lack of principals or policies -- and, of course, his slimeball character.

In recent years the whole world has moved away from Socialism, the statist belief that the government knows best how to manage the lives of its citizens. Bill Clinton came to the presidency as an advocate of the all-wise government. He proposed a government take-over of the health system, huge "infrastructure" spending programs, a massive increase in income taxes, and a whopping energy tax. Clinton got his monster income tax increase, but even a Democratic Congress turned down the rest of the Clinton "ideas." Even to Clinton it was obvious that he was spitting against the prevailing political wind, and he moved towards the center. Bob Dole, on the other hand, realized that he was running on a "too conservative" ticket, and he too moved towards the center (meanwhile, watching Clinton co-opt as much of the Republican platform as he could get away with). Thus, it became increasingly difficult to tell the difference between the two parties. No wonder Dole decided to adopt Ronald Reagan's supply-side economics. It's an economic policy that clearly separates him from Clinton. And with the addition of Jack Kemp on the ticket, the GOP adds a dollop of liberalism to the mix. Clinton is left attacking Dole and shouting "voodoo economics." It's now a question of "which one do you believe?"

* *

South Africa's rand is taking another beating. The problem is that President Mandela's love affair with Western investors may be coming to an end. Problems: one third of S. Africa's black population is unemployed and crime is absolutely rampant. Crime is so bad, in fact, that Islamic vigilantes have finally taken the law in their own hands and are staging battles with S. African gangs. Last year there were 18,983 homicides in S. Africa, nearly 10 times that of the US. Ironically, S. Africa's largest black gang calls itself "The Americans." The crime wave has resulted in many white professionals moving abroad, hindering the government's efforts to provide basic services to millions of blacks impoverished under apartheid. In all, the A.N.C. policy of sacrifice now in order to foster economic growth later is having a difficult time being implemented. This chart (from the *Economist*) shows what's been happening to the rand, and it's not pretty.



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Teenage drug use has jumped over 100%. And heroin is the new drug of choice. I don't know how many of my subscribers read the fashion magazines (*Vogue, Bazaar, Mademoiselle, Marie Claire, Glamour, Details,* etc.). If you do you'll recognize the sunken cheeks, bloodless pallor, reddened eyes, thin almost anorexic bodies -- the look of the hard doper. Even the blank, submissive expressions all bespeak of addiction. Dubbed "heroin chic" by the fashion press, looking strung-out has become the look of the moment. The runways of NY and Europe feature anorexic, unsmiling, impassive models who seem to be floating down the runways in a sort of drugged stupor. What are these red-eyed models suggesting to American young and older ladies? Dope, it's the way to go, it's so Calvin Klein.

* *

Speaking of weakness, I guess most of you know what an enabler is. This term is used extensively in AA and in drug treatment. An enabler "goes along" or makes excuses for the alcoholic or doper. "Yeah, my father only drinks once in a while" (you know that's a damn lie) or "Son, please, you've just got to stop smoking pot -- I guess I've told you that 50 times" (right, and just keep telling him).

You have to wonder whether the whole welfare program in this nation isn't a case of mass enabling. Life on earth, in my opinion, should be a continual exercise in getting wiser and getting stronger. Life is a struggle, and life is frustrating. Dealing with and overcoming adversity and frustration makes one stronger. Or as the saying goes, "Whatever doesn't kill you makes you stronger." How about the government's massive movement into welfare and "helping." Basically, it's a policy of enabling, it keeps people from dealing with reality. Government enabling has produced a massive population of "helpless," welfare-dependent psychic-cripples. You see them every day, you read about them every day, you wonder what the answer is? My thought -- it's taken half a century to produce these millions of human collapses. It's going to take just as long (assuming we ever start) to build a largely healthy population.

* *

I wonder how many of you caught this little squib in the August 13 *WSJ*? And how about that last paragraph? Ah well, it's nice to know what the Congressional Budget Office is thinking about and how they will solve the deficit problem.

Deficit Will Start to Climb In '97, Budget Office Warns

Dow Jones News Services

WASHINGTON – The budget deficit will begin climbing again in fiscal 1997 under current spending and tax policies, the Congressional Budget Office warned.

"In 1997, the baseline deficit will begin to rise slowly and then increase steadily, reaching an estimated $285 billion by 2002,"

Beginning about 2010, the CBO said, the first wave of baby boomers will reach retirement age and put unprecedented pressure on federal spending for Social Security, Medicare and Medicaid programs. At the same time, the office said, the number of people working and paying taxes to support those and other programs will grow much more slowly.

The CBO suggested deficit-reduction options that included major Social Security and Medicare changes, higher taxes for individuals and corporations, and imposing a 5% tax on investment income from pension plans and individual retirement accounts.

* *

Have you noticed (maybe you're part of it) the new nationwide trend towards ending every sentence with an upward inflection -- as if every sentence is a question? This habit has spread like wildfire among the young. Personally, I find it both goofy and irritating. Ending a sentence with an upward inflection turns every sentence into a question. This is basically submissive and weak. It's almost like turning speech into begging. As Frederick Perls, the great psychiatrist, once said, "If you want to gain strength, turn your questions into statements." And it's true, when you end a sentence with a downward inflection you're making a STATEMENT instead of asking a question. It all reminds me of the old Zen koan -- "One fool can ask more questions than 10 wise men can answer." Are we raising a nation of fools?

* *

The developed nations (particularly in Europe) are facing a daunting dilemma. Europe is aiming for a single currency to come into being, hopefully, before the year 2000. But according to the Maastricht treaty, there are strict requirements for joining, including a rule that mandates reducing deficits to 3% or less of GDP. In Europe most nations are committed to reduce their borrowing in order to conform with Maastricht requirements. But the problem -- slow economies and high unemployment rates. Says Stephen Roach, economist with Morgan Stanley, "With politicians increasingly clueless about how to deal with workers angst, the quick fix of the so-called growth dividend seems all the more

appealing." Roach further notes that in the US both Dems and Republicans will probably be tempted by the apparent "death of inflation" to use fiscal stimulation to boost the "feel-good" factor. He sees parallels in Europe and Japan as well, where it's unclear whether governments will deliver promised cuts in huge budget deficits. Roach believes that political pressures will win out, and that governments will ease up and be forced to battle unemployment while forsaking the strictures of Maastricht. In fact, recent weakness in the French franc was triggered by rumors that the French government was about to admit defeat in its battle to meet the Maastricht targets (France is now suffering from 12% unemployment). Writes the August 14 London *Financial Times,* "The central banks are in a difficult position. The international financial institutions have been saying for months that they expect economic activity to pick up in the second half of the year. But the second half is here now and the prospects are still not clear."

* *

He's back, and, of course, I'm talking about that "financial phoenix" Donald Trump. Now Trump is talking about building the tallest building in the world on lower Manhattan. It would be the New York Stock Exchange Tower, and it would soar 1,792 feet, 424 feet taller than the World Trade Center's tallest tower. It would have 3.5 million feet of space, and the plan includes 250,000 square feet of space along side of the massive tower -- the new space would house the NYSE (the Exchange has announced that it wants to move because it is too cramped). In 1990 Trump was $5 billion in debt; today he's worth maybe half a billion to a billion (saved by selling the Plaza plus a bull market in gambling properties in Atlantic City). The NYSE needs a new trading floor, Trump needs a new triumph, NYC needs some action (today the tallest building under construction in NYC is only 30 stories), New Yorkers need something to argue about. Go Donald, go. The sky's the limit.

* *

Statistics: The Eiffel tower is 986 feet; the Empire State Building is 1,250 feet; the World Trade Center is 1,368 feet; the Sears Tower is 1,454 feet; the Petronas Towers (Kuala Lumpur) is 1,476 feet; the Shanghai Financial Center is 1,510 feet. But wait -- Trump's NYSE Tower (if it gets built) will be 1,792 feet!

* *

Diet: If you're an American, chances are you're overweight or at least "feel" that you're overweight. I've tried a lot of different diets from Pritikin to Atkins. Many of them work, you lose weight, but there's one problem -- you can't stay on the darn diets, meaning it's too difficult or they're too boring.

At last, a diet that's not too difficult or boring, and one that allows you to go to restaurants -- and it's one that works. I bought a book (paperback -- Signet) called "The Carbohydrate Addict's Diet" by Drs. Rachael and Richard Heller. Without going into theory (insulin, sugar, carbs, etc.) here's how the diet works. You eat two meals a day of almost all protein, and for the third meal, probably dinner, you eat *what you want.* However, you have to eat the third meal within one hour, no two-and-a-half hour take-forever dinners. And oh yes, no noshing between meals.

Here's what I do. For breakfast I eat an omelet of Egg Beaters (no yolks), mushrooms and a few slices of low-fat cheddar cheese. For lunch I have a salad of lettuce, cabbage, cukes, tomatoes and no-fat cottage cheese. Then for dinner I eat whatever I want, although I tend to cut low on the fats. I lost seven pounds in three weeks on this diet. The diet is easy to stay on, you don't feel as if you're sacrificing anything (you can eat at a restaurant every night if you want), and this diet works, you lose weight or at least you come down to your natural weight. If you lose too much weight you simply add a few slices of bread to breakfast, thus taking in some carbs. Buy the book, try this method of eating -- it works, and it's the most painless diet I've seen yet.

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Odds and Ends: *Smart Money* magazine (Sept.) rates the BEST buys in cars. They voted Mercedes E320 number 1. *"It's the top, all right. Across every category, no other vehicle finished higher in Strategic Vision's total-quality ratings than this Mercedes. It even outscored Mercedes' far pricier S-class sedans."* I bought one six months ago, and I agree 100%. Very simply, this is the best car by far that I have ever owned.

Speaking of cars, *Fortune* (Sept.) in an article, "Why Detroit Can't Make Money on Cars," notes that since 1970 auto production has been outstripping demand. Also light trucks have cut heavily into car sales. The Big Three have "been able to raise car prices only 6% a year since 1988, while manufacturing costs have been rising at an annual rate of 6.5% -- a surefire prescription for disaster. The squeeze on profits is likely to worsen over the next few years as overall sales remain stagnant, trucks continue to gain ground, and the Japanese come back." Says top auto analyst Maryann Keller, "No US company has made a profit on cars once during the last decade."

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If you value your teeth, then take my word for it, buy a new Sonicare toothbrush. This high-tech electric brush vibrates at 31,000 times a minute. I've owned Broxidents, Brauns, you name 'em, the Sonicare is by FAR the best. Get rid of your relic and buy a Sonicare, you'll thank me (most drug stores carry them -- or should).

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The **prison business** is maybe the biggest growth business in the nation. The American Correctional Assoc. met in Nashville last week, where they displayed 5,000 different prison items. Revenues for prison items amounted to a mind-boggling $26 billion last year, everything from razor-wire to bullet-proof glass and new prison designs (5,000 conventioneers attended the show). In case you haven't heard, there are now 1.5 million Americans in prison, the highest percentage to population in the world. Probably most of the inmates are in on narcotics-related crimes. The cost of crime is busting America, even as we bust the drug users. Meanwhile, teenage use of drugs is exploding. The war against narcotics -- it's the war we never win. Why? Because as long as there's a huge market and huge profits, there will be suppliers willing to run the gauntlet.

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Top 10 major markets for office rent increases in the first half of 1996:

		% increase
1.	Minneapolis	26.0%
2.	**San Diego**	**21.7**
3.	Houston	20.3
4.	Indianapolis	18.7
5.	Dallas	18.6
6.	San Jose	17.8
7.	Baltimore	16.1
8.	Denver	15.2
9.	Chicago	14.7
10.	Oakland	14.5

No inflation? Commercial rents are sky-rocketing around the nation. Here is a run-down on rate boosts in major cities. I moved into my current office about 15 months ago. At that time the building was two-thirds rented and the owner was having trouble finding new tenants. Two months after I moved in the place was 100% rented, and people were calling every day to inquire about space -- an amazing turnaround.

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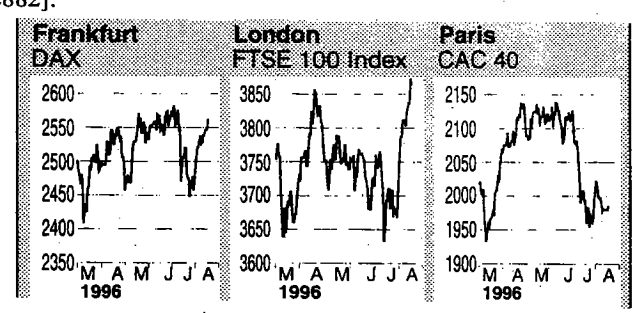
Europe's stock markets are a mixed picture. France is still sluggish, Germany is moving near its high, and in London the FTSE 100 rose to a new high last week. The London market often leads ours in bull markets, while it lags ours in bear markets. Charts are courtesy of the *International Herald Tribune* [(800)882-2882].



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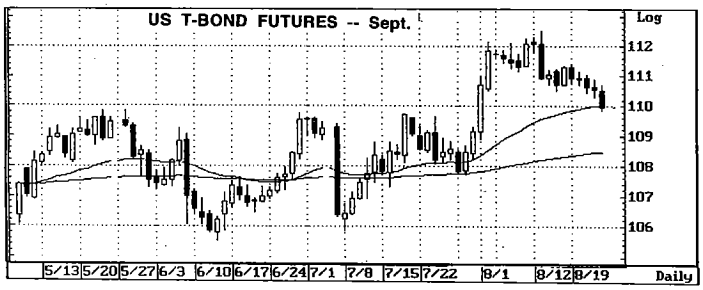
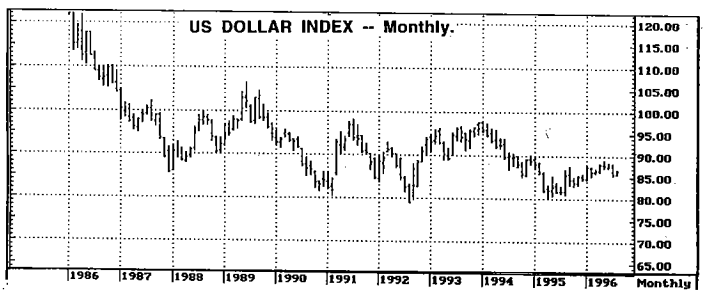
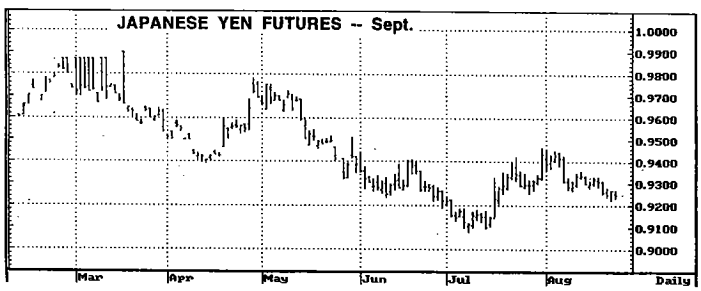
More Charts: Following the big upside breakout in the September T-Bond futures above 110, the futures surged to 112, but by last week they had sagged back below the breakout level again. Bonds appear to be discounting better business coming up in the fourth quarter and even into '97. The stock market acts to me as

if it thought it "would like to" go up -- but the weak bonds are a problem.

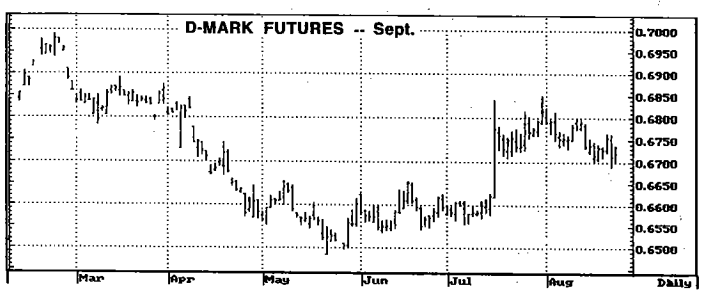


I don't see any major trends developing in the currencies. The US Dollar Index (see monthly chart) has been moving sideways ever since the '91 low. At the same time the yen has been coming down and is now around the 9250 level. Of course, the Japanese prefer a cheap yen, since a cheap yen lights a fire under their exports.





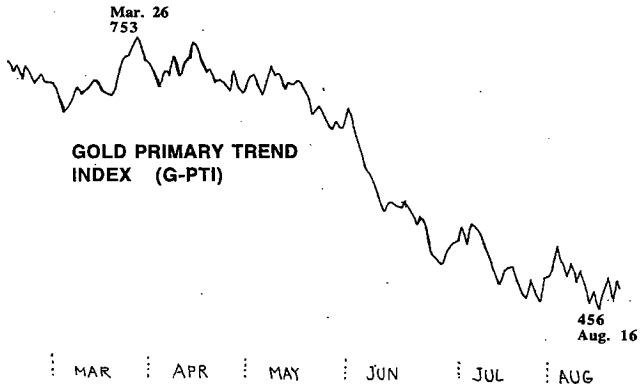
The mighty D-mark has strengthened since its May low, and the whole world has been waiting for the Bundesbank to lower rates. The Bundesbank did just that last week, but the bank's action hardly affected the mark. The Germans, having been wiped out twice since the 1920s by rampant inflation, love a strong D-mark and the Bundesbank knows it.

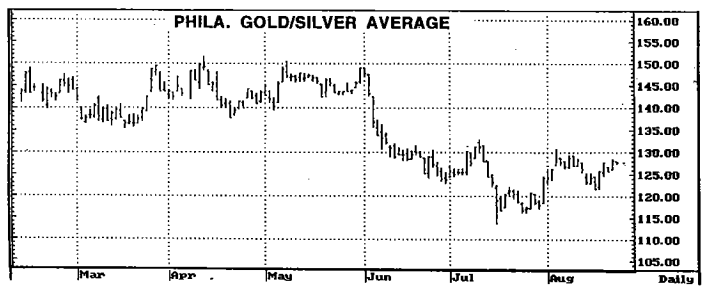


The New Zealand dollar (not shown) has been one of the world's strongest currencies. New Zealand was fed up with inflation and a weak currency so they instituted a new law -- their central bank must keep the inflation rate below 2% -- if it goes above the 2% rate the head of the central bank loses his job. Way to go!

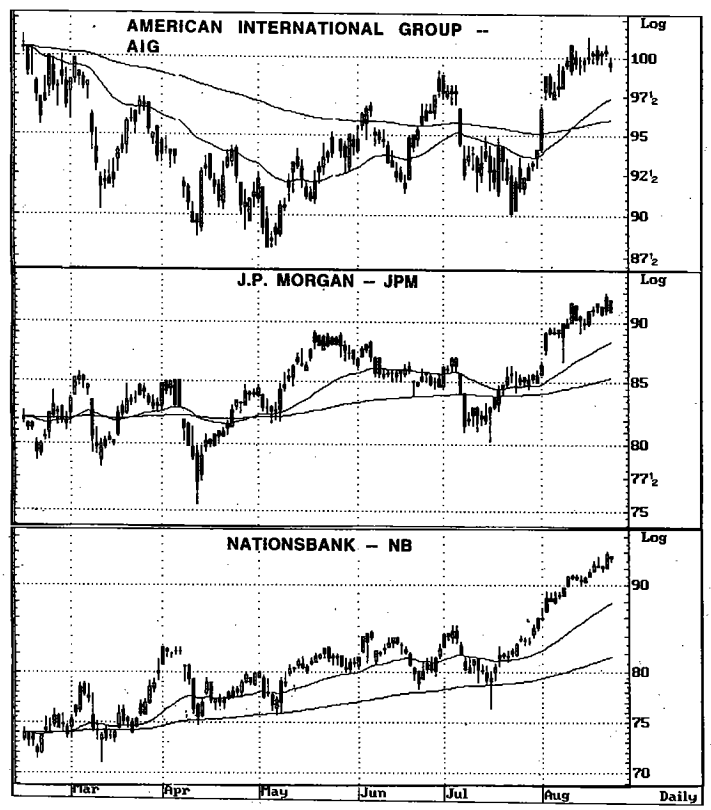
GOLD: Many months ago I bought a batch of December 440 calls on gold. They were cheap at the time, and they are still cheap. But I should have saved myself the money, because it looks like this trade is going to be a dead loss.

A glance at my **Gold-Primary Trend Index (G-PTI)**, will tell you that the gold picture is pretty dismal. The best I can say is that the G-PTI appears to have lost downside momentum, and maybe, just maybe, it is forming a bottom. The same might be said of XAU, the **Phila. Gold/Silver Average.** The upside target for gold bulls is 135 on XAU. Let us pray.





The S&P Financial Average has broken out to a new high -- the Financials have been one of the strongest segments of the market. I've got some extra room in this Letter so I wanted to include charts of my three favorite financial stocks. AIG re-insures, while NB and JPM just make money. All three do a huge and profitable business writing (selling) options. My dear old dad once told me, "Richard, if you want to make money, get in the money business." These three banks obviously know what Dad was talking about.



LATE NOTES: Dow and the Transports, the tug-of-war goes on -- but the Transports sure don't appear to want to rally. Meanwhile, the bond upside break-out was a fake-out -- bonds turning weak now; Dollar also quite weak. **NEXT LETTER on SEPT. 11.**